THE MAINE ECONOMY:
Year-End Review and Outlook 2004

Maine State Planning Office
March 2005

MAINE STATE PLANNING OFFICE
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The Maine State Planning Office maintains several economic databases and other informational resources which may be of interest to the reader; most of these materials can be found on our Web page. For details on information not found at our Web site, call Galen Rose at (207) 287-1478.

In particular, we maintain a graphical database called MaineGraph which is a menu-driven file with eighty graphs and associated data on the Maine and national economies. Two versions, one requiring Excel and the other requiring Lotus 123, are available on the World Wide Web. To access these, go to our homepage at -

www.maine.gov/spo

- and click on "Economic and Census Data," then click on "Economics".

Introduction

This year-end report on the Maine economy reviews State economic performance during 2004, outlines the near-term economic outlook for Maine, New England, and the nation, identifies some of the issues we expect will prove important in Maine's economic performance during the next few years, and highlights ten key State economic events of the past year.

Among the conclusions detailed in this report are:

- The Maine economy was much stronger in 2004 than the previous year by nearly every measure.

- Maine payroll employment increased by 7,100 jobs (1.2%) in 2004, with health services/education (3,900) accounting for over half of the increase and the manufacturing sector continuing to shrink (-1,000).

- The major economic events in the State during the year included two contentious tax reform referendums, the launch of a creative, State sponsored health insurance program, and steep increases in gasoline and heating oil prices.

- The Maine economic outlook calls for continued though modest improvement in 2005, contingent on the national economy dodging a whole slew of negative risk factors - which it is widely expected to accomplish.

We hope that you will find this report useful and informative, and encourage you to call or e-mail us with any comments or questions you may have.

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Acknowledgements

Contributors to this report were Galen Rose (Maine Economy in 2003, U.S. and New England Outlook, Maine Economic Outlook), Joyce Benson, Michael Montagna, and Catherine Reilly (Top 10 and Issues for the Future).

The Maine Economy in 2004

OVERVIEW

The Maine economy was much stronger in 2004 than the previous year by nearly every measure. The prime movers were an improved national economy and continued low interest rates. The Maine Coincident Economic Index (CEI - which roughly tracks Real Gross State Product) rose 2.3% for the year, the strongest performance since 2000, and a significant improvement over the 0.6% growth measured in 2003.

Maine payroll employment increased by 7,100, or 1.2%, the best showing in four years. As a result, personal income growth was also improved.

Maine was fully on board the national housing boom in 2004. Very low interest rates enabled a record setting year for national home sales and home refinancing activity again put billions into people's pockets , a boon to retailers. In Maine, housing permits were up 22.9% for the year, while the value of residential construction contracts rose 23.8%. The residential real estate sector was also strong, with an increase in existing (not new) housing unit sales of 11.6% and an average unit price increase (through the 3rd quarter) of 13.5%. Of course, these are statewide averages which likely understate the southern and coastal Maine experience and overstate trends in northern and western Maine.

The table on this page compares performance in 2004 versus 2003 of a selection of Maine economic measures. As the table illustrates, virtually all measures showed improved performance this past year.

Maine Economic Performance Summary; 2003-2004

	Annual %Chg. 2003	Annual %Chg. 2004
General Economic Growth:		
Coincident Economic Index (1992 avg. = 100)	0.6%	2.3%
Personal Income	4.4%	5.5%
Total Taxable Retail Sales	4.6%	5.3%
General Fund Revenues (Cal. Yr.) (affected by tax rate changes)	4.4%	12.2%
Employment:		
Payroll Employment	0.0%	1.2%
Residents Employed	0.8%	1.2%
Unemployed Persons	15.1%	-7.5%
Unemployment Rate	0.6% pts.	-0.4% pts.
Construction:		
Total Construction Contract Awards	13.5%	6.8%
Residential Construction Contracts	12.4%	23.8%
Housing Permits	1.1%	22.9%
Banking:		
Bank Deposits (thru 3qtrs)	6.0%	8.7%
Bank Non-performing Loans (3qtrs)	-23.1%	25.9%
Bankruptcies	4.9%	-2.9%
Social Assistance:		
Food Stamps Caseload	18.2%	8.8%
Prices (ann. avgs.):		
Mortgage Rates (30-year fixed)	-0.8% pts.	0.0% pts.
Gasoline Prices	17.7%	17.6%

* Some 2004 data are preliminary

EMPLOYMENT

The Maine Payroll Employment table on the facing page summarizes Maine's evolving employment structure. Among the major industry groups, 6 showed job gains, 4 lost jobs, and 1 had no change. The big story, of course, is the continued decline of manufacturing jobs. While 1,000 manufacturing jobs were lost in 2004, this was only about one-fifth the average annual loss over the previous 3 years. It must be noted that national manufacturing employment peaked in the late 1970's and has also been on a general downward trend ever since. The largest job gains were in the education and health services (mostly health) and trade/transportation/utilities sectors.

Maine's average unemployment rate in 2004 was 4.6%, down from 5% in the previous year, and still well below the national rate of 5.5%. Among the counties, shown in the table on the facing page, only Aroostook and Hancock had higher rates in 2004 than in the previous year; all the others had lower rates. Unemployment rates tended to be lowest among the south-coast and mid-coast counties, a bit higher in the central counties, (Androscoggin, Kennebec and Penobscot), and highest in the rural counties around the outer rim of Maine. This decades-old pattern reflects the generally greater economic strength of the coastal region, and comparative weakness of the rim counties.

TAXABLE RETAIL SALES

Maine total taxable retail sales increased by 5.3% in 2004, up from 4.6% growth in the previous year. The bulk of this improvement was due to the exceptional strength of the building supply store-type group (up 15.7%), as the other six store-type groups

MAINE PAYROLL EMPLOYMENT
JOB CHANGE BETWEEN 2003 AND 2004

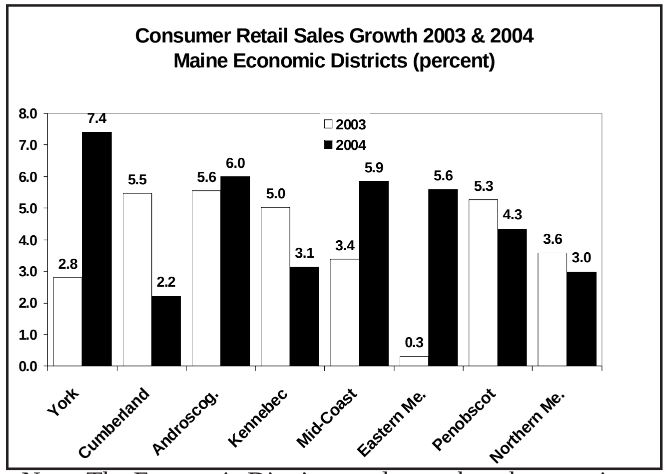
	Jobs Chg.	Pct. Chg.
TOTAL	7,100	1.2%
EDUC.&HEALTH SERVS.	3,900	3.6%
TRADE, TRANSP., UTIL.	2,500	2.0%
GOVERNMENT	1,200	1.2%
LEISURE & HOSPITALITY	800	1.4%
CONSTRUCTION	500	1.6%
NATL. RESOUR. & MINING	100	4.0%
INFORMATION	0	0.0%
FINANCIAL ACTIVITIES	-200	-0.6%
OTHER SERVS.	-300	-1.5%
PROF. & BUSINESS SERVS.	-600	-1.2%
MANUFACTURING	-1,000	-1.6%

UNEMPLOYMENT RATES OF MAINE COUNTIES
Annual Averages

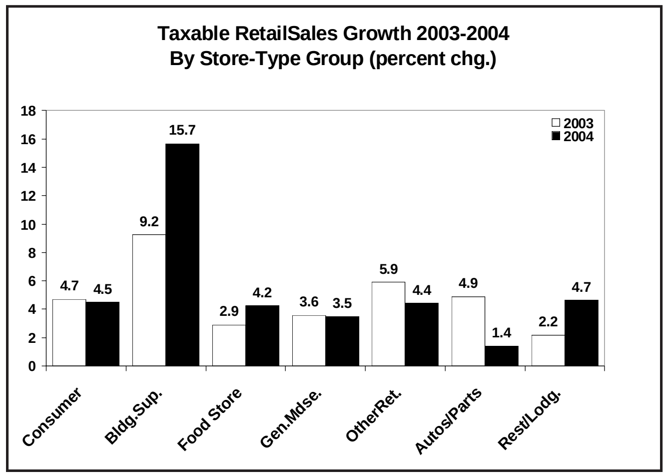
	2003	2004
MAINE	5.0	4.6
CUMBERLAND	3	2.8
KNOX	4	3.2
LINCOLN	3.6	3.3
SAGADAHOC	3.9	3.6
YORK	4.9	4
ANDROSCOGGIN	4.8	4.2
WALDO	4.9	4.3
KENNEBEC	5.3	4.7
HANCOCK	5.1	5.3
PENOBSCOT	6.1	5.4
FRANKLIN	6.3	5.9
AROOSTOOK	5.9	6
OXFORD	6.8	6.4
PISCATAQUIS	8.3	6.5
SOMERSET	8.9	8.5
WASHINGTON	9.7	8.5

showed mixed results. The auto sector (mostly dealerships and parts stores) was a major disappointment, with a growth rate of only 1.4% (versus 4.9% the previous year). This single category typically accounts for one-quarter of State sales tax revenues. The restaurant and lodging sectors both showed significant improvement in sales growth, suggesting a healthy growth in tourism.

Another indicator of a renewed strength in tourism was the large improvement in consumer retail sales growth rates in the south coast, mid-coast, and Eastern Maine regions. The York Economic Summary District posted the fastest growth rate in 2004



Note: The Economic Districts are larger than the counties from which they sometimes borrow a name.

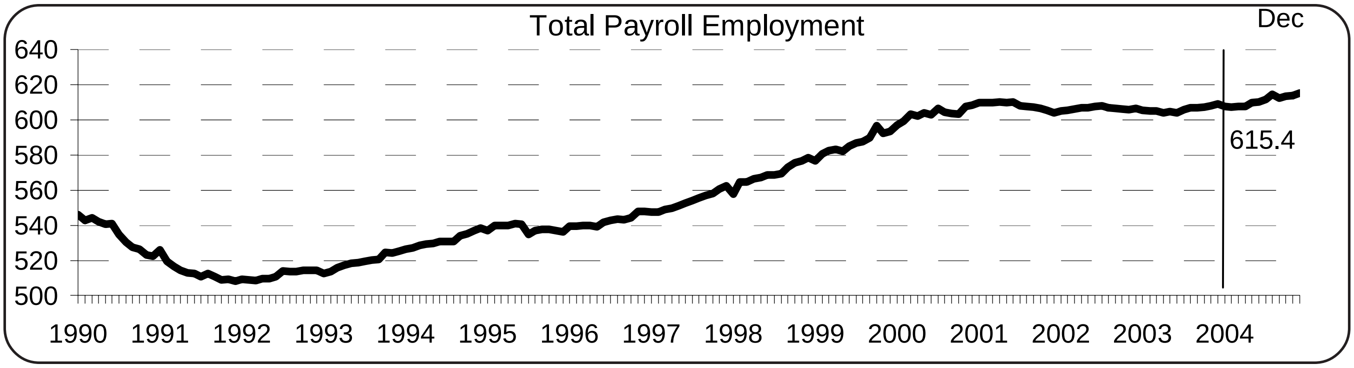


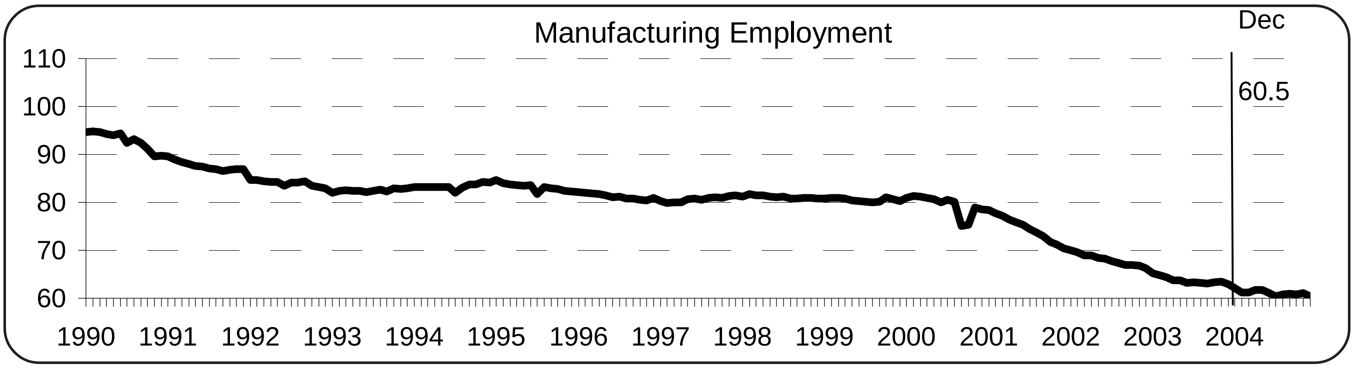
(7.4%), but only the Androscoggin District topped the State average growth rate in each of the past 2 years

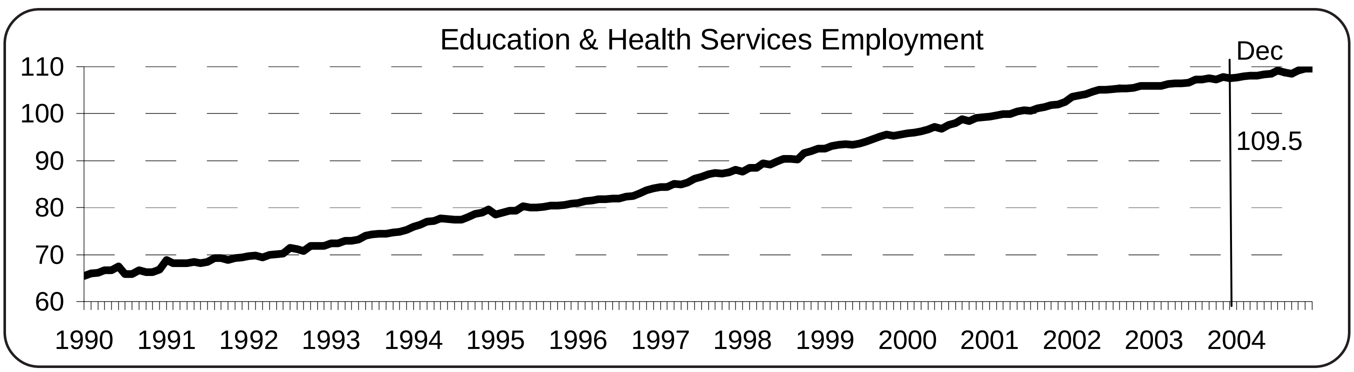
SUMMARY

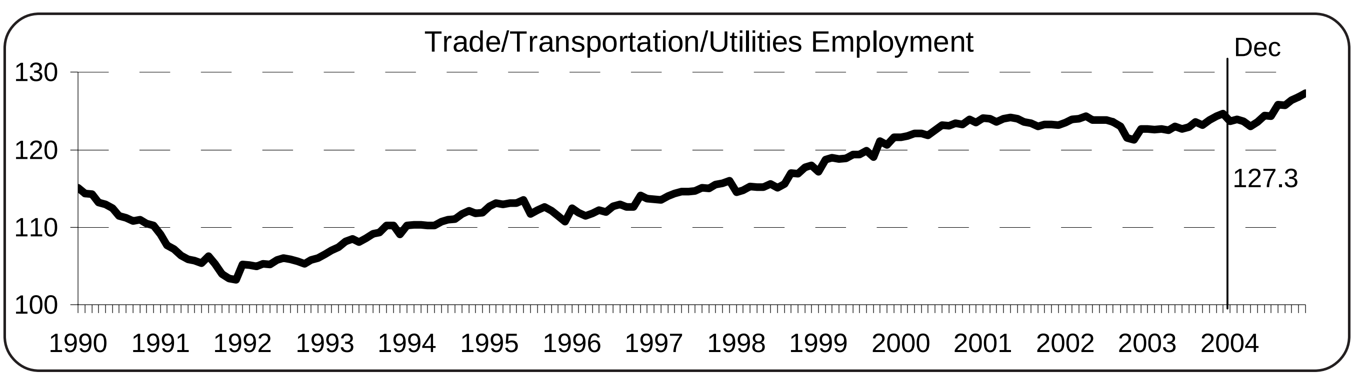
The Maine and national economies were much improved in 2004, but job gains were modest. As we said in these pages a year ago, outsourcing to foreign countries has been widely blamed for weak job growth, but the real "culprit" is productivity growth. Businesses all over the country have made great strides in learning how to produce more output per unit of labor. In the long run, this is a very positive development which raises the living standards of Americans. And, as 2004 came to a close, there was evidence to suggest that job growth in Maine and the nation will be stronger in 2005.

Maine Payroll Employment (seasonally adjusted 1,000's)

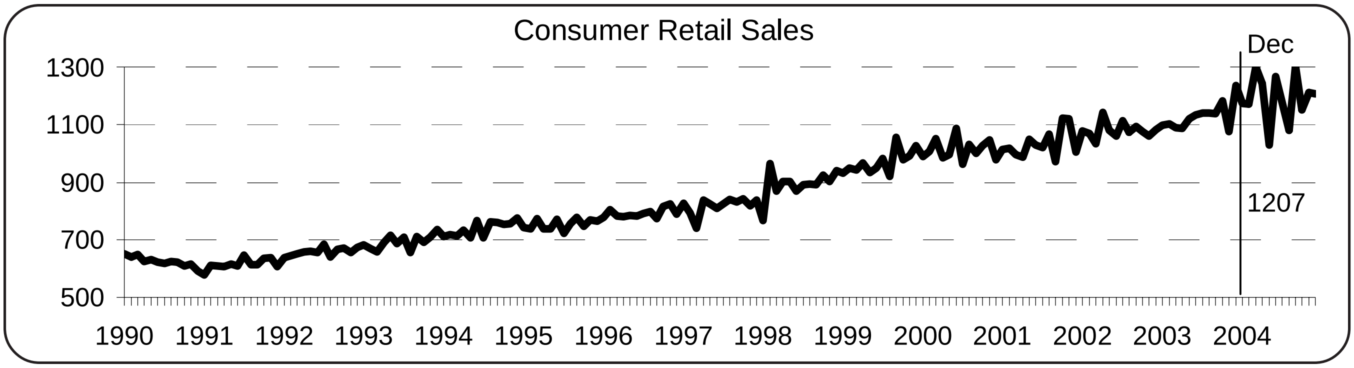


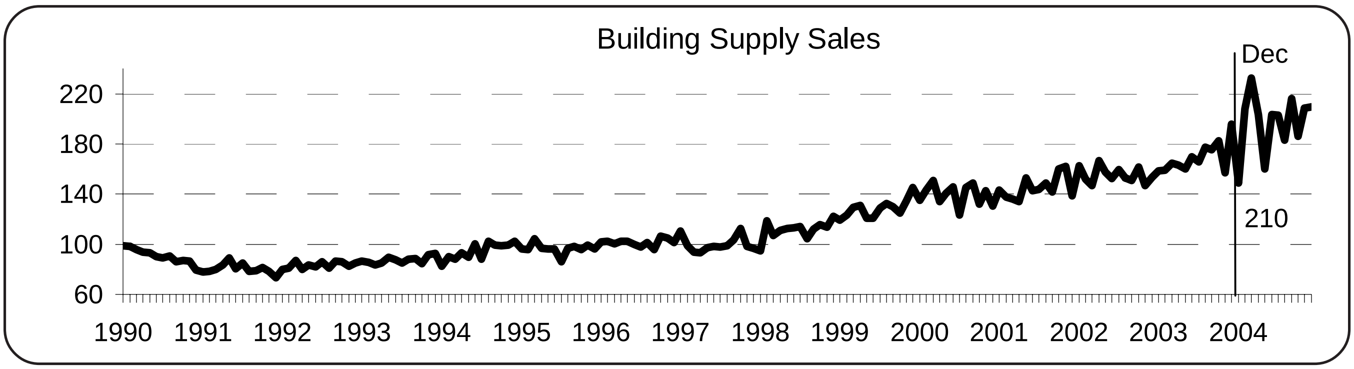


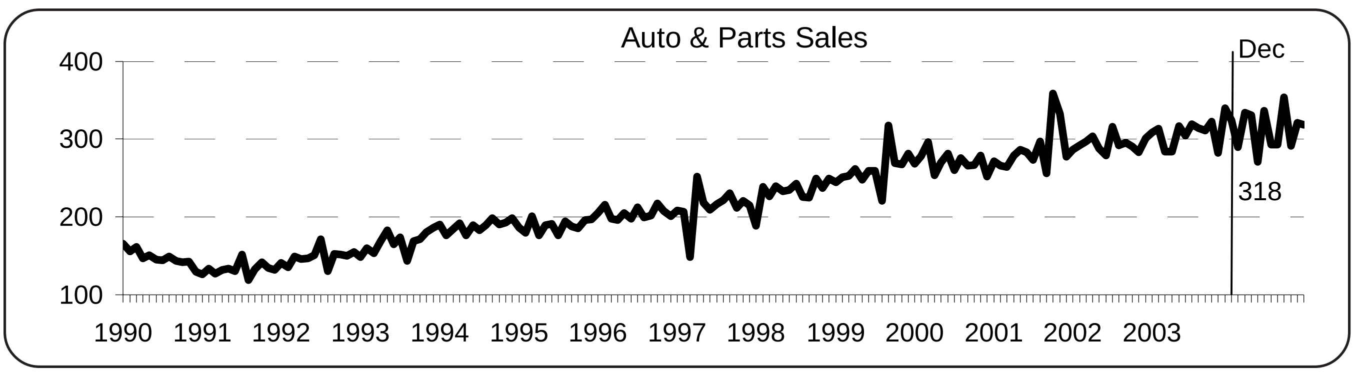


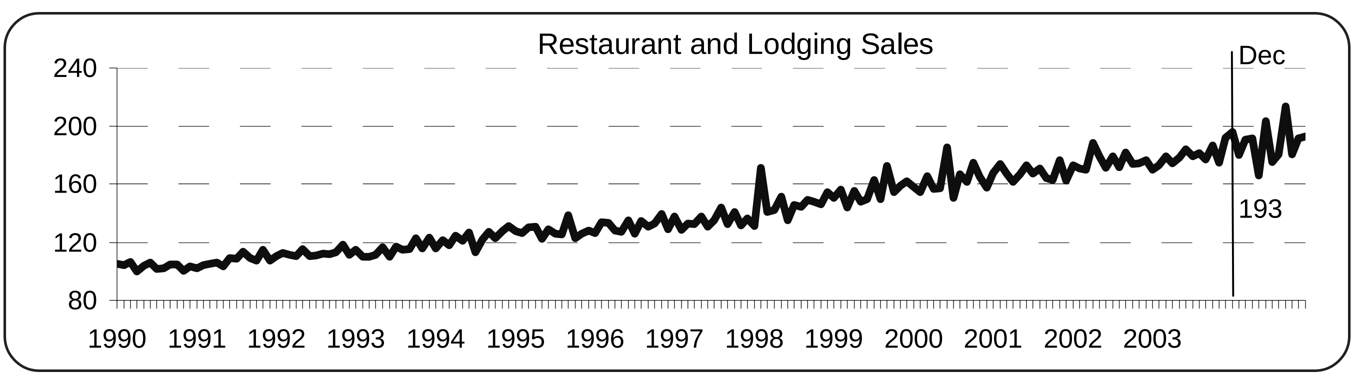


Maine Taxable Retail Sales (seasonally adjusted mil.$)

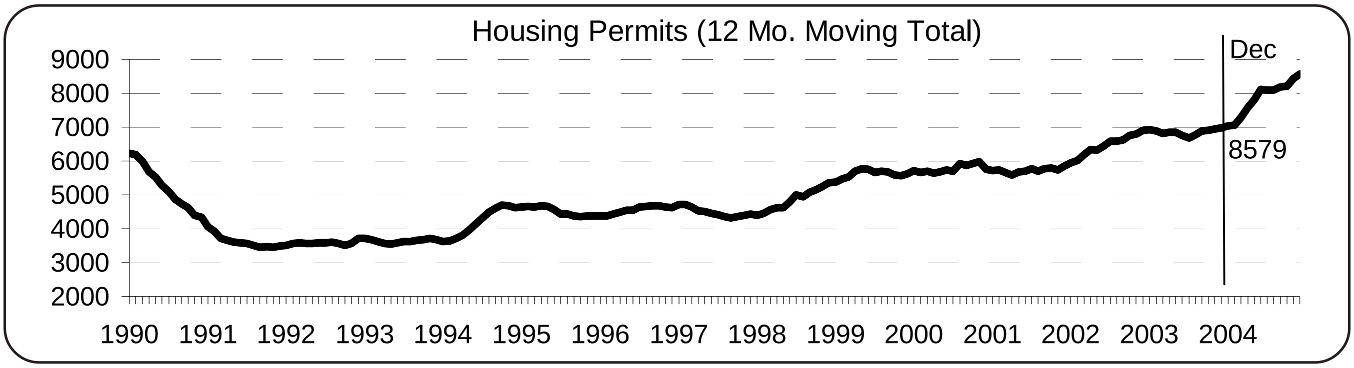


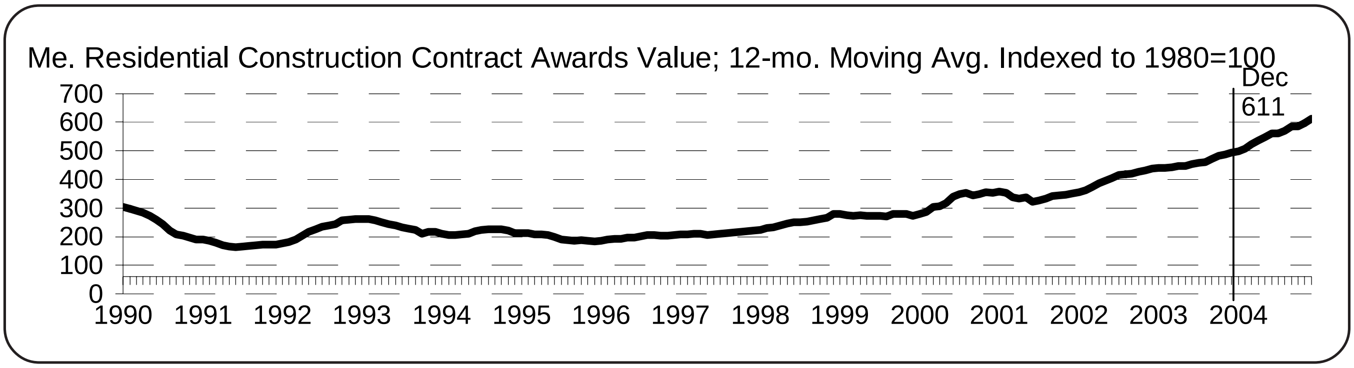


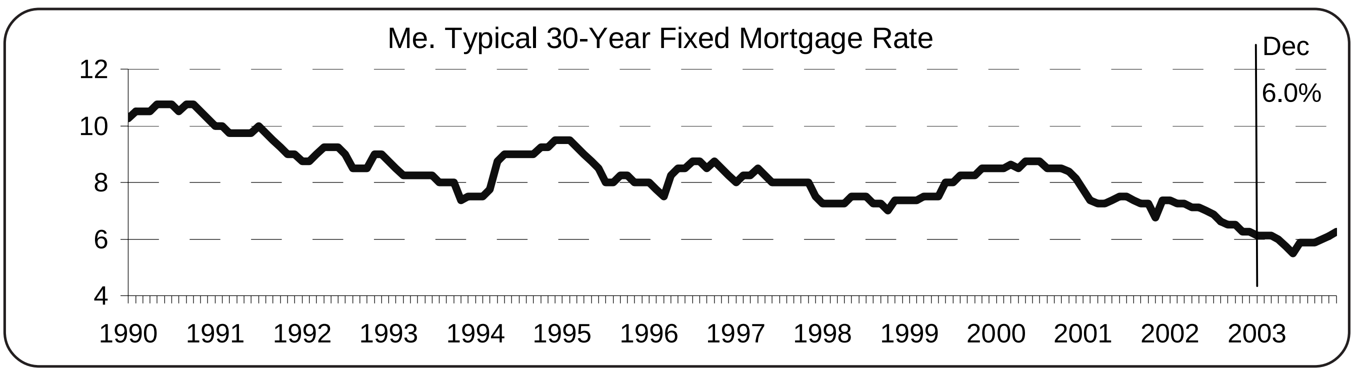


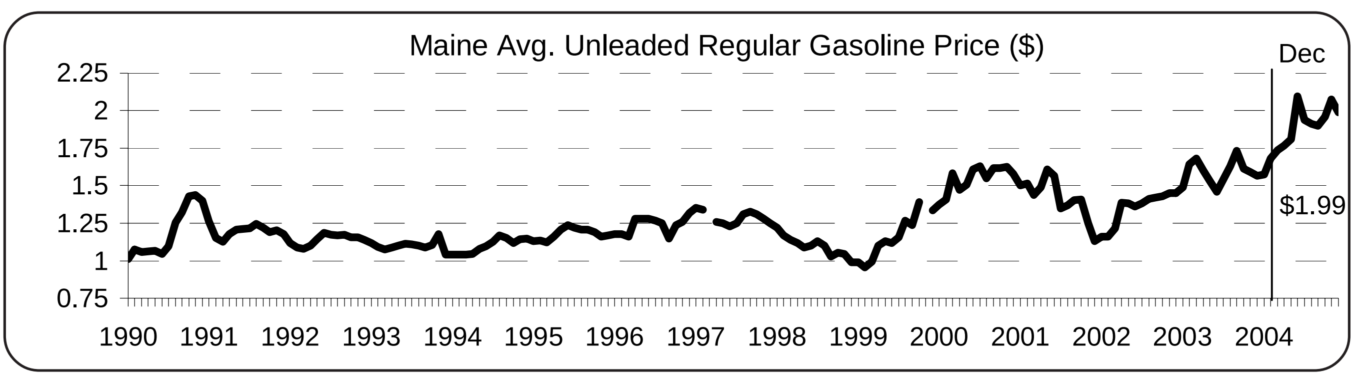


Miscellaneous Economic Indicators









The Ten Most Significant Economic Events in Maine in 2004

It seems to be standard practice for year-end publications to carry a 'Top Ten ' list. Not wishing to be outdone, we include herewith our own top ten, in no particular order.

As Maine DiriGoes…

Maine continues to make national headlines as a leader in health care reform. In 2004, Governor Baldacci's goal of providing affordable health care coverage to uninsured Mainers moved from concept to reality. In May, Dirigo Health Agency issued a Request for Proposals (RFP) seeking bids from insurance providers to offer innovative health coverage to Maine residents. In August, the State announced an agreement with Anthem Blue Cross and Blue Shield of Maine to offer DirigoChoice. The DirigoChoice plan provides discount coverage to low-income households, small businesses, and the self-employed, and promotes wellness by covering 100% of preventive services and offering rewards for achievement of health improvement goals. By January 2005, over 1,000 Maine small businesses and sole proprietors had enrolled in the plan or were enrolling, as were over 2,700 Maine residents.

Health care spending in Maine has been growing rapidly so the economic implications of DirigoChoice could be powerful. According to the Kaiser Family Foundation, between 2000 and 2004 the national average cost of premiums for family coverage increased 59% while the average worker wage increased 12.3% and consumer inflation was 9.6%. In 2004, health care spending statewide amounted to $7.7 billion, nearly 18% of gross state product. That money could have been used to hire more employees, increase incomes, or invest in business and workforce development. Furthermore, a healthier citizenry means more productive employees and fewer lost days of work. Harnessing health care costs, increasing the quality of services, and promoting the overall health of Maine's citizens could boost the state's economy in the coming years.

Reform School

In 2004, the long-running debate on Maine's tax policy came to a head. Multiple referenda and accompanying campaigns signaled the need for immediate, decisive action on the part of lawmakers. In June, voters passed Question 1 (formerly Question 1A on the November 2003 ballot), requiring the State to pay 55% of the cost of public education and 100% of special education, for the purpose of property tax relief. Not satisfied with the promise of relief suggested by that referendum, the Maine Taxpayers Action Network, led by Carol Palesky, launched a citizens' referendum to limit property tax rates to 1% of assessed value and limit assessment increases to 2% annually. After a highly visible public debate, voters rejected the Palesky initiative by a ratio of nearly two to one. When legislators arrived in Augusta in December, property tax reform was their first priority. They immediately established a Joint Select Committee on Property Tax Reform to review Governor Baldacci's proposed implementation of Question 1 and new limits on government spending. This quick work led to the passage of a final bill in early 2005. Ultimately, the property tax debate of 2004 led to a shift away from local property taxes and onto state revenue sources. It also resulted in new legal limits on spending growth at all levels of government, including school administrative units.

Double, Double Oil in Trouble

A number of factors contributed to high crude oil prices worldwide during 2004, including an increase in global demand, especially from the U.S. and China; political instability in oil-producing nations; lower production levels in certain countries, including Venezuela and Iraq; and low refinery margins. By early January 2004, U.S. commercial crude oil inventories fell to 264 million barrels, a historic low. Mainers felt the impact of increased demand and decreased supply on the prices of gasoline and home heating fuels. The statewide average price of regular gasoline peaked at $2.10 per gallon on May 25th before declining steadily through the summer and fall. Heating oil prices were consistently high during the winter of 2003-04. Instead of decreasing over the summer, as heating oil prices usually do, prices increased through the fall, peaking at $2.01 on November 1st. Kerosene prices mirrored the rise of heating oil prices and propane prices also increased steadily through 2004. High energy prices have had an impact, particularly on Maine's low-income population. Applications for Low-Income Heating Energy Assistance dollars have increased, while available funding has not kept pace with fuel price increases. In December 2004, the State launched Operation Keep ME Warm in response to this situation. Teams from 1,000 volunteers have winterized the homes of over 1,500 of Maine's neediest seniors.

Transportationland

The widening of the Maine Turnpike and several high profile bridge projects made 2004 a notable year for Maine's transportation infrastructure. In October, a line-painting celebration at mile-marker 28 of the Maine Turnpike signaled the early completion of a five-year widening project. The turnpike widening, along with the announcement that the Turnpike Authority will convert its electronic toll collection system from the Maine-only Transpass to the multi-state E-ZPass, will expedite the flow of travelers and commerce within Maine and into nearby states. According to the Maine Department of Transportation, over

80% of products that Maine imports or exports pass over the Maine Turnpike.

The completion of a new bridge in Augusta and a long-awaited turnpike interchange in Sabattus, along with continued work on the Waldo-Hancock Bridge, the Portland Connector, Camden's Route 1 Reconstruction Project, and other portions of the turnpike, were notable local improvements to automobile traffic. At Maine's airports during 2004, passenger traffic grew by over 10% at Bangor International Airport and 9.3% at Portland International Jetport.

To Summit, Use Addition

The year 2004 was one of Blaine House Conferences and Summits aimed at tackling a wide variety of public policy issues and concerns relating to Maine's future economy, environment and human potential. The youth summit, Realize!Maine, focused on how to ensure Maine's economy, educational opportunities, and quality of community life can be managed to encourage young adults, resident and non-resident, to consider Maine as an attractive place to live and work. Recognizing that young adults are highly mobile and that their numbers are declining, the summit placed an elevated emphasis on ensuring Maine's youth are well educated and skilled and on the State's capacity to both retain and attract youth. The Creative Economy conference echoed parallel concerns, emphasizing the State's need to foster an environment for entrepreneurship and focus on the arts and culture as an economic sector as well as a quality of life attribute. The Blaine House Conference on Natural Resource Industries and the Grow Smart Summit focused on the role of working landscapes in the economy and how best to ensure that as Maine grows, these sectors of the State's economy remain strong and continue to define the character of the State.

There's No Papering Over This Problem

The woes of Maine's paper industry workers continued to mount in 2004 as mills in Lincoln and Brewer were closed. The Lincoln mill was successfully put back into operation before year end, but the Brewer Mill is slated for conversion to other uses. In other major developments, Mead was sold last year and a paper machine in Jay is scheduled to shut down this year. Times are difficult for Maine's mills even though most are competitive from a productivity standpoint. Many are located on major rivers where they produce their own hydropower, and cogeneration (burning their own wastes to produce electricity) is common. Yet, demand cycles for various paper products and grades are always a problem, and high petroleum prices are affecting the costs of shipping the manufactured product to consumers. Mill workers have long been plagued by seasonal layoffs and slowdowns, but these larger industry transformations are far more disruptive.

Nine-tenths of the Law

Woodland ownership has been changing rapidly over the past few years in Maine, largely, though not entirely, as a result of restructuring within the paper manufacturing industry. Since the late 1990s, almost a third of the land in the North Woods has changed hands, with repercussions extending far beyond the timber industry. Maine's rural lands have long held numerous sporting camps and recreational facilities and private dwellings, many on land leased from large landowners. Most of these lands have traditionally been available for public use for backpacking, hunting and fishing, and for an array of other wilderness activities. But, the new owners often have different principles from the previous owners. In some cases the new owners have either canceled leases with private tenants or increased the dollar amount of the leases while citing liability issues and the costs of maintaining access. Similarly, there is debate on whether land added to Baxter State Park should be available for motorized recreational vehicles such as snowmobiles and ATVs, and on whether hunting will be allowed in the future on the land recently purchased by a vegetarian who opposes killing animals for sport or meat. Meanwhile, along the shoreline of Moosehead Lake and other nearby lakes, Plum Creek Timber is proposing a 400,000 acre development that includes hundreds of house lots. These events are reshaping the character of Maine's wild lands and our views of their environmental, recreational and economic roles in the State's future.

It's Been a Gas

In 2004 several Maine coastal towns experienced the climax of the brewing national debate over the siting of LNG (liquefied natural gas) facilities. In March a proposed $350 million LNG terminal in Harpswell was voted down by town residents. The adverse decision by Harpwsell voters heightened statewide discussion by both proponents and opposition on broad economic and environmental concerns related to LNG facilities at other proposed sites, including Hope Island off Cumberland, Cousins Island off Yarmouth, Prospect Harbor in Goulsdsboro and State-owned Sears Island in Penobscot Bay.

As the year closed, the discussion focused on the town of Perry, where a March 2005 vote on a $340 million LNG terminal proposed for a 45 acre site in Gleason Cove on Passamaquoddy Bay was voted down. As the national and New England economies face growing market demand and thirst for more diverse energy supplies, it is likely there will be further efforts by LNG developers to site a facility in Maine

Back to Nature is Back to the Future

Maine's Office of Tourism initiated a study in 2004 to identify the state's untapped tourism potential in the growing national

[Continued on Page 13]

Progress – With Risks

The New England economy was particularly hard hit by the recession of 2001, and although progress has been made, job growth has been extremely weak. The region's payroll employment peak was reached in January of 2001, but job losses were almost continuous for the following 3 years before turning upward in the spring of 2004. Average New England payroll employment in 2004 was 2.5%, or 178 thousand jobs, below the average of 2000. Massachusetts and Connecticut employment totals are still way below pre-recession levels. In 2004, average national monthly employment was 0.2% (319,000) below 2000 levels, and the Massachusetts and Connecticut shortfalls accounted for nearly a third of this.

One prominent forecaster expects New England job growth of 1.3% and 1.2% for 2005 and 2006, about equal to the State Planning Office forecast for Maine. However, that rate of growth would still leave the New England job total shy of its pre-recession peak for another 2 years.

The US economy, despite fairly strong Gross Domestic Product growth during the current expansion, has also been very slow in creating jobs; the peak pre-recession US job total was reached in February 2001, and won't likely be surpassed until sometime this summer. Economy.com, a respected forecaster, expects US payroll job growth of 1.7% and 1.4% for this year and next, slightly faster than the forecast for Maine.

While all major national forecasts are calling for moderate economic growth this year and next, virtually all of the forecast risk factors are negative. Perhaps the biggest negative is the nation's ballooning debt burden; currently, of every 3 dollars the government spends, one is borrowed. Much of this 'borrowed' money is in the form of bonds sold to foreigners. At some point, those bonds may begin to look like investments in a very shaky enterprise and foreigners could reduce their buying. Among the other negatives are the huge growth (24% last year) in the national trade deficit, stubbornly high oil prices, the mounting cost of the Iraq war, an increasing trend of job outsourcing to foreign lands, and higher interest rates.

The US economy has grown steadily over the past 3 years despite a number of nagging negatives, and will likely continue its current expansion for at least another year or two. However, when there are so very many downside risks, only a fool would bet the farm on continued expansion.

Fig. 1

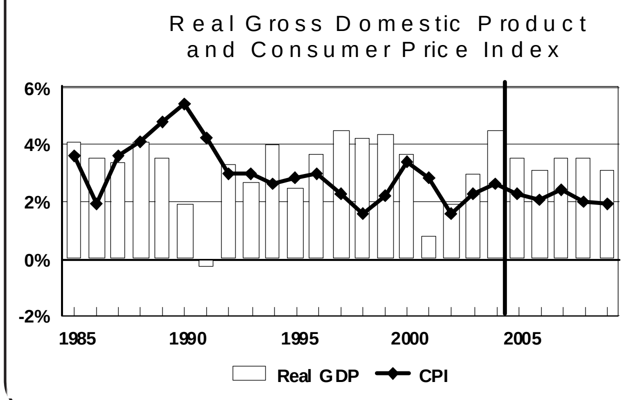


Fig. 2

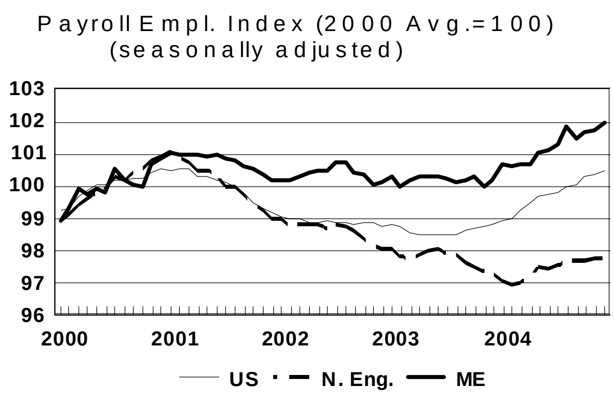
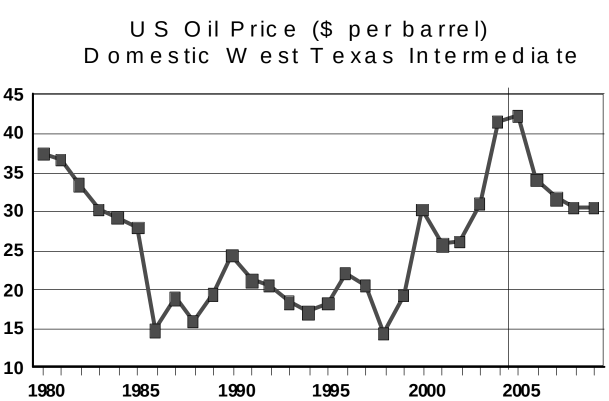


Fig. 3



Maine Economic Outlook

Continued Moderate Expansion

The Maine economy outperformed the national and New England economies over the past four years, but not so much because the Maine economy did well as because the other regions did quite poorly. The 2001 recession was particularly hard on high tech services jobs, and the most severely impacted regions were those where such jobs make up a large percentage of total jobs. For example, between the end of 2000 and 2004, Massachusetts lost 70,000 professional and business services jobs, 30,000 information services jobs, and 10,000 financial services jobs, while Maine lost only 1,500 jobs across all three sectors. As a result of this dynamic, Maine's total personal income grew faster than in the US and New England, and Maine's ranking among the states in per capita personal income rose from 35th to 30th in just 4 years. This bounty is not likely to be permanent, however, as the high tech sectors rebound throughout the country.

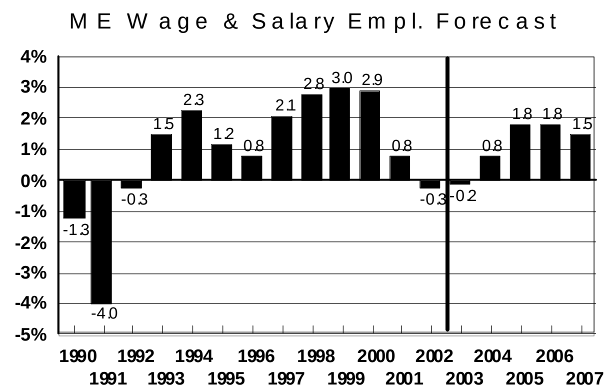
Interest rates are widely expected to rise over the next two years, and this will cause a slowdown in growth rates of housing permits, residential construction, home sales and home prices. However, employment and personal income growth will be only marginally affected.

The SPO January 2005 Maine economic forecast calls for payroll employment growth of 1.4% in 2005 and 1.1% in 2006 (compared to 1.2% growth in 2004). The largest job gains over this period will be in education and health services (2,700 in 2005), professional and business services (2,500), retail (1,500) and leisure and hospitality (1,300). Construction employment is expected to shrink (-1,500) and manufacturing jobs will continue to decline (-500 jobs), but at a slower rate than over the past few years.

Personal income is expected to grow a bit more slowly than in the recent past, with annual growth near 4% for this year and next. Wage and salary income growth will improve to around 5.5% for the period, while growth rates will slow somewhat for "other labor income," proprietors' income, dividends/interest/rent, and transfer payments.

It has become almost an article of faith that massive youth out-migration imperils Maine's future economic prospects. In fact, as research by the State Planning Office and the Muskie Institute in 2004 has shown, the large decline in the youth population over the past decade-plus was largely a result of more people aging out of the youth cohorts than growing into them. The decline in the number of young, working-age people will indeed pose a labor force problem, but it should be understood that it is not traceable to large numbers of youths bailing out of a hostile economic environment. Actually, because of Maine's economic strengths and the general aging of the population, employment opportunities for young people should improve significantly over the near-term future.

Fig. 1



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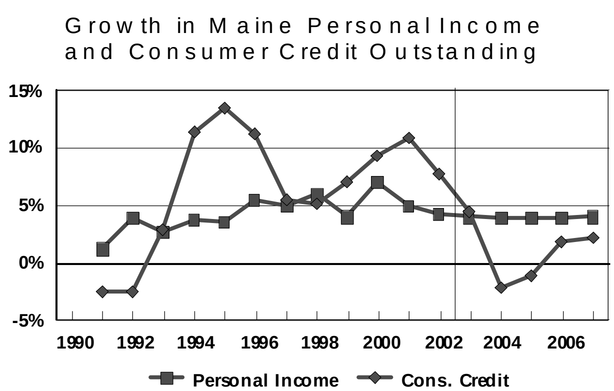
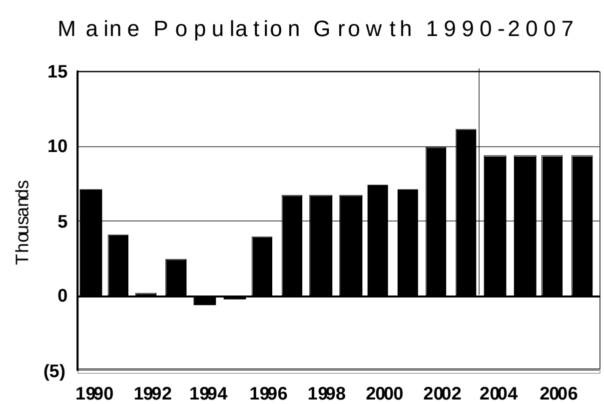


Fig. 3



Below, we outline three issues which we believe may play major roles in Maine's near-term economic future.

Population Aging and Diversity

Many U.S. states have aging workforces due in part to the progression of the baby boom generation into retirement. However, Maine has a noticeable lack of younger residents to balance this effect. By any measure, Maine's population is among the oldest in the nation. In 2000, 14.4% of Maine residents were age 65 or older (U.S. Census Bureau). By this measure, we were the seventh oldest state in the nation. In the same year, 23.6% of our population was under age 18, the third lowest percentage in the nation. Our median age, 38.6 years also placed us third. Projections indicate that our overall population will age even more in coming years.

The aging of Maine's population has real consequences. Many near-retirees are at the peak of their lifetime earning potential; as they leave the workforce, their taxable incomes will decrease significantly. At the same time, their demand for healthcare and other social services will increase. This means that a shrinking portion of the state's population will have to support the needs of a growing elderly population. On the bright side, the retirements of some workers may yield valuable employment opportunities that attract more young people to our state and continued increases in productivity may alleviate some of the pressure on the workforce. Nevertheless, Maine will face challenges as it adapts to the demographic changes in the coming years.

Several factors contribute to the relative age of our population. The oft-cited brain drain contributes to our lack of young people. On average, Maine experienced an annual net loss of 3,020 residents age 12 to 29 during the 1990's.

Maine's demographic composition is another factor that is often overlooked. In 2000, 96.5% of Maine residents were non-Hispanic white individuals, much higher than the U.S. percentage of 69.13%. In 2000, the portion of Maine residents born outside the U.S. was 2.9%, the lowest since 1850 (and perhaps earlier but data are not readily available). By comparison, 11.1% of all U.S. residents are foreign born. Since minority and immigrant populations have lower average ages and higher birth rates, their presence in other states tends to balance the aging of the white population. That isn't happening in Maine.

Hence, the aging of Maine's population is not unusual given the notable absence of minority residents. In 2000, 15% of non-Hispanic white Americans were age 65 or older, not much higher than Maine's proportion of 14.4%. The median age of white Americans was 38.6 years – exactly Maine's median age. Maine's 2002 birth rate was 10.5 (live births per 1,000 residents), 24.5% lower than the national rate of 13.9 and lower than every other state except Vermont, but just 10.3% lower than the birth rate of non-Hispanic white Americans, 11.7.

These figures suggest an effort to increase the number of young people living in Maine will have to address at least two issues: the number of young people leaving our state for experiences elsewhere and the lack of a significant presence of minority and immigrant residents.

Base Closure and Realignment (BRAC): 2005

In 2005, the nation's Base Closure and Realignment (BRAC) Commission prepares its fifth and final submission to Congress on the domestic military bases which it recommends for closure, consolidation or realignment.

The current BRAC process is driven by the goal to achieve efficiencies and savings from a cold-war network of bases that has about 25% more capacity than what the armed forces say they require. A 1997 defense review determined that infrastructure cuts are required to reduce the share of the national defense budget devoted to infrastructure. The report concluded that retaining excess base infrastructure is unnecessary with a smaller military force, largely because it wastes scarce defense resources which are essential to the military's future ability to modernize its force structure.

The fundamental element for both improved force structure and cost savings is the creation of joint installations where facilities can be shared by active forces, National Guard, and Reserve components across the different services. It is expected that the 2005 BRAC recommendations will facilitate the military's transformation toward a force structure based on joint operations of facilities in areas where activities are currently separate.

Military observers anticipate that the current BRAC round of closures could dwarf the previous four rounds combined (1988, 1991, 1993, 1995), during which ninety-seven major U.S. domestic bases were shut down. The BRAC Commission will begin its 2005 work when Secretary Rumsfeld submits to them his DOD (Department of Defense) proposal for closures and realignments by May 16th. Pentagon analysts have spent two years evaluating future force structure needs, it is estimated that Rumsfeld is determined to eliminate or consolidate about 25% of the nation's 425 remaining domestic bases.

Two of the United States' 425 domestic bases are located within Maine, each of which could be included on Secretary Rumsfeld's May 16th recommended closure or realignment list to BRAC. Naval Air Station Brunswick (NASB) is one of sixteen of the U.S. Navy's domestic air stations, it directly employs about 4,200 military and 600 civilians with an annual payroll of about $120 million. Portsmouth Naval Ship Yard (PNSY), located on Seavey Island in the town of Kittery, is one of the Navy's four publicly owned shipyards, it directly employs about 100 military and 4,300 civilians with an annual payroll of about $280 million.

BRAC consists of a nine-member independent body appointed by the White House and confirmed by the Senate. Between May 16th and September 8th BRAC has the power to add bases to DOD's proposed list by agreement of seven-out-of-nine commission members, or to delete bases on the DOD list with approval of five-out-of-nine commission members. BRAC must submit its recommendations list to the President by September 8th.

If the President disapproves this list, BRAC has a second opportunity to revise the list and must submit a final list to the President by October 20th. If the President approves the list he must submit BRAC's final list to Congress for its approval or disapproval (without further modification) by November 7th, 2005.

Should one of Maine's two bases be included on Secretary Rumsfeld's list of proposed closures to BRAC there are two regional interest groups fully prepared to defend their strategic importance. With direct support of Maine's Congressional delegation and the Office of the Governor these two organizations would make their best possible case to BRAC Commissioners on the unique mission and capacities of a Maine base. Such a case would highlight the base's strategic positioning and emphasize the highly skilled technological workforce and recent capital investments that make both Maine bases exceptional candidate's to undergo a full conversion to the joint force structure design which the Pentagon seeks to build for the nation.

If it turns out that BRAC determines the changing nature of the nation's defense systems and its related technological or infrastructural requirements cause a Maine base to remain recommended for closure to the President, the same organizations would then coordinate and facilitate a transition toward that base's shutdown in the community.

Utilizing Congressional and Governor's Office support, the organization would insure that Maine gets full benefit of all potential transition program funding which the federal government makes available to bases designated for closure. In particular, states such as Maine would require immediate assistance in adjusting itself away from a relatively high defense dependent economy. This would occur through the securing of extensive retraining funds for civilian employees and other necessary adjustment strategies to assist or compensate those Maine firms, families and communities impacted as a result of severe losses in defense-related work for Maine's businesses and industry.

Historical Background: The base closure process had its origins in the 1960's when DOD began reducing excess base structure that had been created during World War II and the Korean War. Sixty bases were closed in the early 1960s when President Kennedy directed Secretary of Defense Robert McNamara to implement an extensive base realignment and closure program. At that point, the Office of Secretary of Defense (OSD) acting alone established criteria to govern the selection of bases for closure, without consulting Congress or the military or involving other government agencies.

The political turmoil that followed caused Congress to pass legislation in 1965 requiring its involvement in future base closures. This legislation was vetoed by President Johnson, and base closures and realignments remained under OSD control until 1977 when President Carter signed legislation ending DOD's independence on the matter of base closures, permitting Congress to deny any DOD proposal, and giving them an integral role in the process which they have maintained under the current BRAC legislation.

Natural Resource Industries Development

Last year's Blaine House Conference on Natural Resource Industries was merely the seed to a larger and ongoing dialog on how to ensure traditional Maine industries remain vibrant and at the core of what defines us as a State. After months of synthesizing the materials amd ideas generated by the Conference, a steering committee identified 5 top priorities: (1) preserve the resource base, (2) stengthen the demand and capacity for local food production, (3) build capacity among hospitality and recreation business entrepreneurs, especially nature based tourism, (4) market Maine's image in its products and services to increase demand for Maine grown and Maine made, and (5) enhance the competitive capacity of Maine's businesses by finding ways to reduce overhead costs (energy, insurance, health care, transportation, etc.) that are higher in Maine.
To this end the Governor has proposed an aggressive bond package aimed at strengthening these industries through infrrastructure and technology advancements, land preservation, and research and industry development initiatives. Initiatives include creaating tourism research and education capacity at the University and developing nature tourism. Several task forces and working groups are expected to present their findings and recommended actions in 2005, including the local agriculture task force, bay management study and pilot projects, and a task force to examine the sustainability of the forest products industry. A follow up Blaine House Conference is planned for the fall of 2006.

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market for nature-based tourism. DECD's Office of Tourism has employed Fermata, an Austin, Texas based firm, to assist Maine regions in developing nature-based tourism strategies that are in increasing demand. Fermata's specialty revolves around inventorying a state's existing tourism assets and then building a strategic plan that allows different regions within a state, along with different segments of the local tourism industry, to work together in a unifying direction toward building collaborative ties that enhance a state's existing assets.

The whole is greater than the sum of the parts is the concept for nature-based tourism. A nature-based approach is being directed not only to develop new marketing strategies for Maine, but most importantly will be used to coordinate a new layer of emphasis on product development for Maine's tourism industry, one that will seamlessly connect things like hiking or canoe trails from one region to theaters, concert halls and historic downtowns in another region. The Governor and Commissioner of Economic Development are expected to unveil Fermata's analysis and recommendations in a report scheduled for release in June 2005 by the Maine Office of Tourism.

Hey Buddy, Wanna Buy a...

Maine posted another excellent result for export growth in 2004. The dollar value of merchandise trade exports from Maine to foreign nations increased by 11% in 2004, the same as in 2003. This continues the trend of progress of the past few years in this important measure.

Maine's International Trade Center (MITC) was created in 1996 to lead an effort to increase Maine's export volume. Since then, Maine's population rank has fallen from 39th to 40 while its dollar volume of exports ranking has improved from 42nd to 40th. Moreover, For the most recent five year period, 1999-2004, Maine ranked 9th in the nation in rate of export growth.